

TEACHERS' RETIREMENT SYSTEM INVESTMENT POLICY STATEMENT

I. BOARD OBJECTIVE

The Board of Control, As Trustees of the Teachers' Retirement System, has full power, through the secretary-treasurer, to invest and reinvest system funds in accordance with the Prudent Man Rule: "with the care, skill, prudence, and diligence under the circumstances then prevailing that a prudent man acting in a like capacity and familiar with such matters would use in conduct of an enterprise of a like character and with like aims." Other funds currently and hereafter under the management of the Teachers' Retirement System will be governed by this Investment Policy Statement within each fund's limitations and/or by other applicable legislated restrictions.

It is the objective of the Board that systems funds be invested in such a manner as to maximize the total return of the fund within prudent risk parameters. Also, the Teachers' Retirement System recognizes that a stronger Alabama equates to a stronger Retirement System, and as such, investments in Alabama businesses are encouraged to the extent the investment meets the criteria delineated by this policy statement.

The long-term investment performance expectations of the fund are to achieve a return on marketable securities in excess of the actuarial investment assumption and to exceed the rate of inflation (as measured by the CPI) by 3% through investments in a broadly diversified portfolio. The performance evaluation of the fund will be submitted to the Teachers' Retirement System Board on a semi-annual basis.

II. ASSET ALLOCATION

The most important aspect of any investment strategy is the decision regarding allocation among the various asset classes. The purpose of formulating asset allocation guidelines is to maximize investment returns while minimizing the negative impacts of unfavorable market developments. Accordingly, the asset allocation decisions and implementation will not be governed by arbitrary allocation restrictions, but instead will be predicated on the following factors:

1. The actuarial projected liability stream of benefits and their cost,

2. The perception of the relative performance of the future short-term and long-term capital markets, and
3. Judgements regarding future economic conditions, and the resulting effects on inflation and interest.

The allocation assigned to each asset classification is expressed in terms of an acceptable range for each category. The following information delineates the composition of each asset class and the allocation attributed to each class.

A. *Domestic Fixed Income*

The domestic fixed income portfolio may consist of any rated or non-rated debt security including, but not limited to, the following: U.S. Treasury issues, agency issues, mortgage securities, corporate bonds, and privately placed debt securities. The suggested range for this asset class is 40%-65%.

B. *International Fixed Income*

The international fixed income portfolio may consist of foreign currency denominated fixed income instruments. The fund may hedge against adverse currency fluctuation when it is considered appropriate. The suggested range for this asset class is 2%-15% of the aggregate portfolio.

C. *Domestic Equity*

The domestic equity portfolio may consist of both actively and passively managed equity securities. Also, covered call options may be utilized in order to add incremental value to the equity portfolio and may be written and repurchased as market conditions warrant. The suggested range for this asset class is 25%-50% of the aggregate portfolio.

D. *International Equity*

The international equity asset class may be used to provide diversification to the portfolio and may consist of both actively and passively managed foreign common stocks. The fund may hedge against

adverse currency fluctuations when it is considered appropriate. The suggested range for this asset class is 2%-15% of the aggregate portfolio.

E. Real Estate

The real estate portfolio may consist of office, retail, industrial, commercial, and residential housing projects. The suggested range for this asset class is 1%-10% of the aggregate portfolio.

F. Alternative Investments

Alternative investments may consist of, but are not limited to, venture capital, limited partnerships, futures, commodities, and derivative investments. The suggested range for this asset class is 0%-5% of the aggregate portfolio.

G. Short-Term Investments

Short-term investments may consist of money allocated to commercial paper, repurchase agreements, short-term U.S. Treasury securities, and other money market investment. The primary objective of short-term investments is to provide highly liquid, low risk methods of return on funds, which have not been committed to the other aforementioned asset classes. The suggested range for this asset class is 1%-20% of the aggregate portfolio.

Asset allocation is a dynamic process, and as such, the allocation decision should be revisited as market conditions change. In order to recognize this dynamism, the allocation targets within the recommended ranges of each asset class for the prospective quarter should be included in the quarterly strategy report.

III. PROCEDURES

1. The investment advisor will work with the staff to develop a quarterly strategy for investments, which will be disseminated to the Board as it is prepared each quarter.
2. The Investment Committee shall approve all investments made within Board policy. This Investment Committee, in its approval, is considered

to be signing for the entire Board of Control. If any purchase or sale is questioned by a member of the Investment Committee as to whether it is within given Board policy, the board shall decide and no purchase or sale shall take place until all parties are in clear agreement that said action is or is not covered by policy.

3. Each week the secretary-treasurer will send to the investment advisor the list of actual activities for written confirmation, which will then be forwarded to all Board of Control members upon receipt.
4. The staff members of the investment advisor will meet at least quarterly with members of the RSA staff and interested Board of Control members to cover subjects of mutual interest.
5. All investment security purchases will be documented with an individual worksheet setting out the reason for the purchase, rating, market history and other general data pertinent to the decision making process.
6. Ann annual survey will be made of all fixed income investments held with emphasis on credit quality. A holding that has been downgraded in rating will be examined as to the reason for the downgrade and a determination should be made as to whether the security should remain in the portfolio.
7. The ethical conduct of Teachers shall be governed by the rules of the Securities Exchange Commission, the general policies of the board of Control, and the Alabama Ethics Commission. The RSA staff will provide the Alabama Ethics Commission with a quarterly report of all purchases and sales of any and all securities for personal accounts occurring within each reported quarter. The staff will abide by the Alabama Ethics Commission Advisory Opinion No. 673.